

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **6 November 2012**

By: **Chief Executive and Interim Director of Corporate Resources**

Title of report: **Annual Audit Letter and fee outturn 2011/12**

Purpose of report: **To inform the Committee of the Annual Audit Letter and fee outturn for 2011/12.**

RECOMMENDATION:

The Committee is recommended to note the Annual Audit Letter and the fee outturn for 2011/12.

1. Financial Appraisal

1.1 The outturn external audit fees of £195,465 for the core audit and £3,585 for dealing with queries from local electors will be funded from existing budgets. Further detail is provided in Appendix A.

2. Supporting Information

2.1 The Annual Audit Letter (AAL) attached as Appendix B summarises the key issues arising from the work carried out by the Council's external auditors, PKF, during the year. This report contains no new findings or recommendations, but reflects the key issues already reported in the Annual Governance Report. The AAL was circulated to all Councillors and published on the Council's website prior to the Audit Commission's deadline of 26 October and will be approved at Cabinet on 13 November.

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Background Documents

None



Accountants &
business advisers

East Sussex County Council

Summary of external audit fee outturn for 2011/12

October 2012

Fee outturn

The Audit Commission's *Standing Guidance for Auditors* requires us to report the outturn fee position for the year against the budgeted fee included within our Audit Plan. We reported in our Annual Governance Report to the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee in September 2012 that we would carry out a detailed comparison of actual audit costs incurred against planned costs when we had completed the audit.

The final fee outturn for our audit of the financial statements and our value for money conclusion work under the Code of Audit Practice is £195,465, which varies from the planned fee of £187,465 by £8,000.

£5,000 of the variance relates to additional audit time spent in reviewing a number of amendments made to the draft financial statements, in particular the note for property, plant and equipment; the restatement of the cash flow comparatives; the Council's revised approach for recognising grant income this year; and resolution of queries arising from our audit of the Council's 'L-pack' for the Whole of Government Accounts exercise.

The remaining £3,000 of the variance relates to our review of the proposed termination payment for a senior officer, at the Council's request.

In addition, we will bill the Council £3,585 for partner and director time spent in considering queries from local electors on the financial statements. This fee was not included in our Audit Plan as it is not possible to provide an estimate at the planning stage, although our Audit Plan did explain that any time spent dealing with questions and objections would be billed separately.

We have not yet completed our certification of grants claims and returns for the year ended 31 March 2012. We will report the final outturn fee for this work in our grants report to the Audit, Best Value and Community Services Scrutiny Committee in March 2013.

The table below sets out the fee outturn, in comparison to our Audit Plan:

Audit Plan 2009/10	Planned fees £	Actual fees £	Variance
Financial statements	147,125	152,125	5,000
Use of Resources / VfM conclusion	40,340	40,340	-
Termination payment review	-	3,000	3,000
Subtotal for Code audit	187,465	195,465	8,000
Grants certification	17,000	TBC	TBC
Responding to questions and objections from local electors	-	3,585	3,585

TBC : To be confirmed on completion of our grants certification work

Annual Audit Letter 2011/12

East Sussex County Council

OCTOBER 2012



Contents

Executive summary	1
Introduction	3
Key findings	5

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

[Local Government Code of Audit Practice](#)

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

Executive summary

This Annual Audit Letter summarises the findings of the work we have completed on the audits of East Sussex County Council and East Sussex Pension Fund in respect of the year ended 31 March 2012.

✓ Accounts

- The financial statements of the Council and pension fund give a true and fair view of the financial affairs and income and expenditure for the year and were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
- The Annual Governance Statement was not misleading or inconsistent with other information of which we were aware.

✓ Internal control

- We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly around the authorisation of manual journals.
- We were able to rely on the work of Internal Audit.

✓ Whole of Government Accounts

- We were satisfied that in all respects the L-Pack is consistent with the audited financial statements. We have issued an unqualified opinion in respect of the Council's Whole of Government Accounts return.

✓ Use of resources

- We are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- We issued an unqualified value for money conclusion.



Pension Fund Annual Report

- We reported that we were satisfied that the information included in the annual report was consistent with the audited financial statements.
- We noted that there were a few areas where the reporting requirements of the Regulations had not been fully complied with. This included omission of the full governance compliance statement and we were required to make reference to this omission in our audit report.

Our detailed findings and recommendations were reported to management; the Audit, Best Value and Community Services Scrutiny Committee; and the Governance Committee in our Annual Governance Reports (September 2012).

Introduction

THE PURPOSE OF THIS LETTER

The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to the Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.

The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

RESPONSIBILITIES OF THE AUDITORS AND THE COUNCIL

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.

As the external auditors of the Council and of the pension fund, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

SCOPE OF THE AUDIT

Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:

- the Council's financial statements, including the pension fund financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

REPORTING THE AUDIT

We provided reports to “those charged with governance” (the Audit, Best Value and Community Services Scrutiny Committee and the Governance Committee) and management on the findings of the audit focusing on key issues regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year in respect of both the Council and the pension fund were:

- Audit Fee Letters issued in April 2011
- Grants and certification work (2010/11 returns) issued December 2011
- Audit Plans issued February 2012
- Annual governance reports issued September 2012
- Annual Audit Letter issued October 2012.

ACKNOWLEDGEMENT

Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council’s own agenda.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

Key findings

ABOUT THE COUNCIL

East Sussex County Council serves a population of 517,040. It covers 660 square miles with many people living in the urban areas of Bexhill, Eastbourne, Hastings and Lewes. It has lower than average levels of crime and above average life expectancy.

The objectives of the Council are set out in its Promise and Policy Steers and included in its overall Council Plan 2012/13. These include:

- help make East Sussex prosperous and safe
- support the most vulnerable people
- improve and develop roads and infrastructure
- encourage personal and community responsibility
- deliver the lowest possible council tax
- be a voice for East Sussex, listening and answering to local people.

Financial and other resources required to achieve these objectives are allocated through the Reconciling Policy, Performance and Resources process to optimise resources to key priorities.

The Council is the administering authority for East Sussex Pension Fund. The pension fund is a national pension scheme, which is open to all employees of councils in East Sussex and a number of other organisations.

ACCOUNTS

Financial statements

We issued an unqualified true and fair opinion on the financial statements of the Council and pension fund on 28 September 2012.

One material misstatement was identified and corrected to reduce both gross income and gross expenditure by £9.487million (prior year £11.662 million) included in the Comprehensive Income and Expenditure Statement, in respect of the amounts payable by Brighton and Hove City Council for its share of the costs of the integrated waste management Private Finance Initiative contract that had been collected and paid over by the Council.

A presentational amendment was also made to the financial statements to clearly show the impact on costs in 2011/12 for the transfer of responsibility for concessionary fares from the district councils.

We reported four uncorrected misstatements in the Council's financial statements and one uncorrected misstatement in the pension fund. The impact of correcting for these misstatements would be to decrease the charge to the Council's General Fund for the year by £584,000. The pension fund misstatement had no impact on the available net assets and related to £977,000 of cash balances held as part of the Council's bank accounts which we believe should be classified as a current asset rather than investment assets as it represents day to day working capital of the fund.

We consider that these misstatements did not have a material impact on our opinion on the financial statements.

The audit was well facilitated and the finance staff were responsive and co-operative. The Statement of Accounts had been prepared to a good standard and comprehensive working papers were available to support the disclosures within the financial statements.

Annual governance statement

We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

INTERNAL CONTROL

We have noted the following area where we consider that there is a significant deficiency in internal controls:

- authorisation of journals is required where the total value of the amount to be posted exceeds £1 million whereas good practice would be to require independent authorisation of all manual journals created and posted to the SAP nominal ledger.

We have raised this issue in previous years, and management has responded that it is satisfied that there are appropriate compensating controls in place to detect errors in journal postings.

We also identified a few instances of non-compliance with the Council's internal controls mainly covering the need to retain evidence of reviews or completed controls, segregation in ordering and authorisation of Carepay expenditure, cash and cheques handling and security, and maintaining up to authorisation lists staff overtime and expense claims.

We have discussed these with management and those charged with governance and made recommendations for improvement where necessary.

In completing this work we reviewed and tested the work of Internal Audit and were able to place reliance on it.

WHOLE OF GOVERNMENT ACCOUNTS

We were satisfied that in all respects the Whole of Government Accounts return (the 'L-Pack') is consistent with the audited financial statements. We have issued an unqualified opinion in respect of the Council's Whole of Government Accounts return.

USE OF RESOURCES

Financial resilience

Our review of the Council's financial resilience has considered the arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

Reductions in Government funding and withdrawal of service specific grants in 2011/12 resulted in reduced income of £20 million. The Council also identified additional cost pressures of £20 million, off-set by £3 million of planned cost reductions. In setting the budget, the Council was required to identify cost savings of £37 million.

The Council delivered against the budget and reported an underspend of £12.7 million, which was transferred to earmarked reserves for the departments to use in the following financial year. The key steps taken to achieve the required savings included reduced administration costs and efficiencies from procured services, inflationary increases available only for priority services, careful use of specific grant funding and targeted priority areas, managing cash balances prudently in earning interest income, and minimising the cost of borrowing to fund the capital programme.

The Council's general fund balance at 31 March 2012 is £8.3 million, which is in line with the target minimum level of 2.25% of the net revenue budget. Looking ahead, the revenue budget for 2012/13 includes savings of £19 million, and the medium term financial plan requires further savings of £37 million in 2013/14 and 2014/15.

Budget monitoring for the first quarter of 2012/13 indicates overspends in some areas due to service pressures. However, overall a net underspend of £2.8 million is forecast for the year.

The Council has maintained its good track record of member and officer involvement in reviewing financial matters and consulting on expenditure priorities. Clear leadership is shown in ensuring that the Council's overall financial position is understood within the organisation.

Overall the Council is well placed to manage the delivery of the required savings over the next few years and has sufficient flexibility in its reserves to remain financially resilient.

Challenging economy, efficiency and effectiveness

Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

The Council's Reconciling Policy, Performance and Resources process in 2011/12 focused on the need to balance the three elements where choices can be made – Policy (what to do), Performance (how well to do it) and Resources (at what cost). The intention was not to focus on identifying cuts but to decide how to spend well the budget that was available and challenge departments to deliver the best possible value for money.

Improvements to the process also involved linking this to an overall commissioning approach for each set of services (a fourth choice – how to do it). The programme of service reviews was revised to support this strategic commissioning approach.

A review of finance, ICT and property services has identified the need for a major change to the way that support services are organised if the commissioning discipline is to be effectively supported. Management is consulting on a proposal to consolidate services in the Corporate Resources department, support services based in departments and Personnel and Training, into a single department called Support Services. It is intended that these changes will yield significant savings and efficiencies.

The Council continues to be active in the South East Seven (SE7) partnership where partners work together in a number of key areas to explore collaborative opportunities to improve the quality of services and to achieve efficiency savings. The Council is leading on the SE7 work stream to reform the Special Education Needs and Disability (SEND) system and proposals have been submitted to the Secretary of State for Education for a radical redrawing of the SEND system.

The Council captures performance against 147 key measures and targets from the policy steers for 2011/12. Outturn reports show that 110 (75 per cent) targets were achieved and 37 (25 per cent) targets were not achieved. There were 78 measures where the Council could compare performance to the previous year and 69 per cent had improved, 14 per cent showed no change, and 17 per cent deteriorated.

For 2012/13 the Council has set 149 key measures and targets from its policy steers. Management has reported that as at the end of quarter one, 134 (90 per cent) are rated green and 15 (10 per cent) are rated amber.

A review of spending across service areas for county councils in recent years has indicated that the Council has some areas of above average spending and therefore there is potentially scope for further improvements and efficiencies to be achieved through continued service reviews and benchmarking. We are satisfied that the Council understands the reasons for these and that they reflect the demographics of the resident population, areas of priority spending and investment.

We are satisfied that the Council has appropriate arrangements for challenging how it secures economy, efficiency and effectiveness in the services that it provides.

PENSION FUND ANNUAL REPORT

Our review of the financial information included in the pension fund annual report confirmed that this was consistent with the audited financial statements included in the Statement of Accounts.

However, we noted the following disclosure requirements that had not been included in full in the annual report as required by the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance:

- reference was made in the annual governance statement to the pension scheme governance compliance statement although the governance compliance statement should be included in full
- there was limited management commentary on the performance of the fund during the year
- the Statement of Investment Principles is referred to although the current full should be included
- the policy on communications with members and employing authorities has not been included.

We are required to review and report on the governance compliance statement in the pension fund annual report. As this has been omitted, we were required to make reference to this in our audit report.

